

US FERC Should Shed Light On Gas Mkt Oversight Efforts-GAO (Dow Jones)

By Maya Jackson Randall

WASHINGTON (Dow Jones)--The U.S. Federal Energy Regulatory Commission needs to do a better job of alerting state regulators and the public of how it's policing the natural gas market, Congress' investigative arm said in a report released Tuesday.

The Government Accountability Office said the natural gas commodity prices overseen by FERC have significant impacts on the public, yet "federal oversight of the commodity markets remains a work in progress."

Stakeholders remain largely unaware of what FERC is doing to ensure that natural gas prices are reasonable and free of manipulation, the GAO said, adding that more information about oversight activities could lead to greater market confidence.

The office pointed out that just last year, natural gas prices which had already been soaring over the past five years jumped to more than \$15 per thousand cubic feet. The spike prompted many government officials and consumers to grow worried about whether high prices are the result of market conditions in light of Hurricanes Katrina and Rita or manipulation.

FERC does not usually disclose information about informal and formal market investigations unless the probes have been completed and violations have been detected. For instance, the commission won't say if it plans to follow up on an industrial consumer group's request for FERC to investigate Amaranth Advisors LLC to see if the hedge-fund giant manipulated natural gas prices.

The Industrial Energy Consumers of America on Friday told FERC that Amaranth, which lost \$6 billion in September, should be subpoenaed and investigated. Speculative trading by the hedge fund and others drove up natural gas futures over the summer.

"We don't comment as to whether or not an investigation is underway as a matter of policy," said FERC spokesman Bryan Lee. "If an investigation bears fruit, it becomes a public matter."

Although it's against FERC's policy, GAO said FERC has authority to disclose such information. And by providing more information to stakeholders, "FERC could both increase stakeholders' understanding about FERC's efforts to ensure the fairness of natural gas prices and better deter market manipulation," the GAO said.

FERC monitors natural gas prices at key energy market trading centers and also approves rates that determine interstate transportation prices.

An energy bill Congress approved last year gave FERC access to information on most natural gas transactions. Still, the GAO noted that FERC does not actively monitor all natural gas trades that occur in various physical and financial markets.

The investigative office also noted that FERC officials say it's hard to know whether markets are completely free from manipulation because it's difficult to determine what prices would be under completely competitive conditions.

Also, the GAO pointed out that FERC has not yet used new authority it was granted by last year's energy bill to impose substantial fines on companies found to have violated market rules. Meanwhile, FERC's role in overseeing natural gas commodity markets has become more important in recent years because the commodity portion of prices has increased, the GAO said, noting that natural gas commodity prices accounted for almost 60% of the total consumer price in 2005 compared with about 30% in 1993.

That said, the GAO recommended that FERC Chairman Joseph Kelliher consider providing stakeholders more information on how enforcement staffers analyze natural gas markets, information on types of unusual market behavior and more timely information on gas market investigations.

"We agree that disclosure of information that is specific or detailed could provide would-be market manipulators with information about FERC's sources and methods of operation," the GAO said. "Therefore, we believe it prudent that the chairman have initial discretion on how best to do this."

Kelliher responded to the report by saying he agrees with the report's conclusions.

"The report's recommendations of how to meet the challenges that lay ahead are consistent with our current direction of attempting to ensure the availability of adequate price information for market participants and improve the understanding of the commission's role in ensuring the fair, competitive determination of prices on the natural gas market," he said in a letter to Jim Wells, the GAO's director of natural gas resources and environment.

The GAO report was requested by members of the U.S. Senate Homeland Security and Governmental Affairs permanent subcommittee on investigations.